

ALBIA MUNICIPAL WATERWORKS  
ALBIA, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENT AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

Peak & Gerdes, LLP  
Certified Public Accountants  
1051 Office Park Road  
West Des Moines, Iowa 50265

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## ALBIA MUNICIPAL WATERWORKS

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Russell	Chairman	April 2, 2009
John Scieszinski	Secretary	April 2, 2007
Jack Scieszinski	Trustee	April 2, 2011
Patty Stuchel	Office Manager	Indefinite
Vicki Kerr	Clerk	Indefinite

## Albia Municipal Waterworks

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CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IOWA 50265  
  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Albia Municipal Waterworks:

We have audited the accompanying financial statement of the Albia Municipal Waterworks, Albia, Iowa, as of and for the year ended June 30, 2006. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Albia Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Albia attributable to the transactions of the Waterworks.

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Albia Municipal Waterworks as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2006 on our consideration of the Albia Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 18 through 19 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

July 6, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Albia Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

### **2006 FINANCIAL HIGHLIGHTS**

Receipts of the Waterworks increased 62%, or approximately \$681,000, from fiscal 2005 to fiscal 2006.

Disbursements increased 61%, or approximately \$663,000, from fiscal 2005 to fiscal 2006.

The Waterworks total cash basis net assets increased 8%, or approximately \$22,000, from June 30, 2005 to June 30, 2006.

The Waterworks incurred \$695,118 in new debt to finance the cost of water main replacements in fiscal year 2006.

### **USING THIS ANNUAL REPORT**

The Albia Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Albia Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Albia Municipal Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Albia Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Albia Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Funds. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2006. Also, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Waterworks.

## FINANCIAL ANALYSIS OF THE ALBIA MUNICIPAL WATERWORKS

### *Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets*

The purpose of the statement is to present the receipts received by the Albia Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Albia Municipal Waterworks' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, taps and miscellaneous fees. Receipts also include revenue bond proceeds and program income. The City of Albia pays the Albia Municipal Waterworks contract fees to include sewer and landfill charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2006 and June 30, 2005 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2006	2005
<b>Receipts:</b>		
Use of money and property	\$ 6,366	\$ 4,252
Charges for service	670,726	683,854
Sewer and landfill fees collected for City	334,882	335,741
Miscellaneous	69,825	68,818
Program income	9,333	-
Revenue bond proceeds	682,618	-
Total receipts	1,773,750	1,092,665
<b>Disbursements</b>		
Distribution expenses	107,134	85,215
Distribution outlay	721,526	62,550
Administration and other expenses	472,418	450,321
Sewer and landfill fees remitted to City	333,993	338,692
Debt service:		
Principal paid	100,000	138,000
Interest and trustee fees paid	16,831	14,516
Total disbursements	1,751,902	1,089,294
Net change in cash basis net assets	21,848	3,371
Cash basis net assets beginning of year	287,283	283,912
Cash basis net assets end of year	\$ 309,131	\$ 287,283

The smaller portions of the Waterworks' net assets (20%) are unrestricted net assets available for use in routine operations of the distribution and administrative areas of the Waterworks and for capital improvements to the distribution areas. The remaining net assets (80%) are restricted for the repayment of the revenue bonds issued and the customer water deposits.



## **DEBT ADMINISTRATION**

At June 30, 2006, the Waterworks had \$1,010,118 in revenue bonds and debt outstanding, compared to \$415,000 last year. All the Waterworks bonds are revenue bonds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Albia Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2007 budget, including water main replacements, upkeep of current mains and fees that will be charged. The Waterworks is undertaking an extensive capital improvement program, which is expected to cost approximately \$1.85 million. As of June 30, 2006, approximately \$1.1 million has been spent on this project. The balance, or approximately \$750,000, will be spent in fiscal year 2007, and will be paid as work on the project progresses. The Waterworks and City have obtained a grant and a loan from the State of Iowa to fund these capital improvements.

## **CONTACTING THE ALBIA MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bob Russell, Albia Municipal Waterworks Chairman, 120 South A Street, Albia, IA 52531.

## Financial Statement

## ALBIA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BASIS NET ASSETS

Year ended June 30, 2006

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 670,726
Miscellaneous	<u>69,825</u>
Total operating receipts	<u>740,551</u>
Operating disbursements:	
Business type activities	<u>1,301,078</u>
Total operating disbursements	<u>1,301,078</u>
Deficiency of operating receipts under operating disbursements	<u>(560,527)</u>
Non-operating receipts (disbursements):	
Interest on investments	6,366
Sewer and Landfill fees collected for City	334,882
Sewer and Landfill fees remitted to City	(333,993)
Revenue bond proceeds (net of \$12,500 discount)	682,618
Program income	9,333
Debt service	<u>(116,831)</u>
Total non-operating receipts (disbursements)	<u>582,375</u>
Change in cash basis net assets	21,848
Cash basis net assets beginning of year	<u>287,283</u>
Cash basis net assets end of year	<u><u>\$ 309,131</u></u>
<b>Cash Basis Net Assets</b>	
Restricted for:	
Bond principal and interest payments	\$ 172,711
Customer water deposits	<u>74,275</u>
Total restricted net assets	246,986
Unrestricted	<u>62,145</u>
Total cash basis net assets	<u><u>\$ 309,131</u></u>

See notes to financial statement.

# ALBIA MUNICIPAL WATERWORKS

## NOTES TO FINANCIAL STATEMENT

June 30, 2006

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The Albia Municipal Waterworks is a component unit of the City of Albia, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

#### B. Basis of Presentation

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

#### C. Basis of Accounting

The Albia Municipal Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

#### D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Cash Equivalents – The Waterworks considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets and Net Assets – Funds set aside for bond principal and interest payments and customer water deposits are classified as restricted.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United State government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Waterworks.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		
	Principal	Interest	Total
2007	\$ 90,000	\$ 29,072	\$ 119,072
2008	110,000	26,109	136,109
2009	50,000	23,782	73,782
2010	116,000	22,054	138,054
2011	93,000	18,912	111,912
2012-2016	345,000	62,569	407,569
2017-2019	206,118	11,740	217,858
	<u>\$ 1,010,118</u>	<u>\$ 194,238</u>	<u>\$ 1,204,356</u>

Water Revenue Bonds Payable to Local Banks

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to a “Revenue Bond Sinking Fund” for the purposes of making the bond principal and interest payments when due.

Note 3. Revenue Bonds Payable (continued)

Water Revenue Bonds Payable to Wells Fargo Bank Iowa, N.A.

On November 23, 2005, the Waterworks entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. for the issuance of \$1,250,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The Waterworks will receive disbursements from the Trustee upon request to reimburse the Waterworks for the costs as they are incurred. At June 30, 2006, the Waterworks had drawn \$695,118 of the \$1,250,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$554,882 held in trust which the Waterworks will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks during the year ended June 30, 2006. Although the Waterworks is still drawing funds on the water revenue bonds, a formal repayment schedule has been adopted for the debt.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account.
- (c) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$9,487, \$8,701 and \$8,366 respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation leave termination payments payable to employees at June 30, 2006 is \$7,607. The liability has been computed based on rates of pay in effect at June 30, 2006.

Note 6. Office Lease Agreement

The Waterworks and the City of Albia have entered a lease for office space to be occupied by the Waterworks in the Albia City Hall. The lease has a term of thirty years with current rental payments of \$150 per month. The thirty year period expires on December 31, 2011.

The lease provides for the annual negotiation of the amount of the lease payments on the anniversary date of the lease. Rental expense under this agreement during the year ended June 30, 2006 was \$1,800.

Note 7. Risk Management

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' annual contributions to the Pool for the year ended June 30, 2006 were \$9,194.

Note 7. Risk Management (continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Commitments

The Waterworks has signed a contract to purchase a minimum of 3,000,000 gallons of water a month from the Rathbun Regional Water Association, Inc. This contract is effective through year 2039. Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, Inc. The Waterworks does not have the capability to produce its own water for resale.

The Waterworks has uncompleted contracts for approximately \$670,000 for water main repair and replacement. This contract will be paid as work on the project progresses. This project should be completed in fiscal year 2007. This project will be paid for with a loan from the State of Iowa Revolving Loan Fund through the Iowa Department of Natural Resources and by a Community Development Block Grant through the Iowa Department of Economic Development.



## Required Supplementary Information

ALBIA MUNICIPAL WATERWORKS  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2006

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 6,366	\$ -	\$ -	\$ 6,366
Charges for service	1,005,608	1,095,924	1,095,924	(90,316)
Miscellaneous	79,158	17,000	17,000	62,158
Total receipts	1,091,132	1,112,924	1,112,924	(21,792)
Disbursements:				
Business type activities	1,751,902	2,164,288	2,400,388	648,486
Excess (deficiency) of receipts over (under) disbursements	(660,770)	(1,051,364)	(1,287,464)	626,694
Other financing sources, net	682,618	1,086,000	1,250,000	(567,382)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	21,848	34,636	(37,464)	59,312
Cash basis net assets beginning of year	287,283	-	-	287,283
Cash basis net assets end of year	\$ 309,131	\$ 34,636	\$ (37,464)	\$ 346,595

See accompanying independent auditor's report.

## ALBIA MUNICIPAL WATERWORKS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

The Albia Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$236,100. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amount budgeted.

## Other Supplementary Information

## ALBIA MUNICIPAL WATERWORKS

Schedule I

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS NET ASSETS  
ENTERPRISE FUNDS

Year ended June 30, 2006

	General	Customer Deposit	Debt Service	Improvement	Total
<b>OPERATING RECEIPTS:</b>					
Charge for service -					
Sale of water to meter customers	\$ 620,517	\$ -	\$ -	\$ -	\$ 620,517
Sales of water - tank service	381	-	-	-	381
Collection fee from City	34,949	-	-	-	34,949
Sale of labor	9,116	-	-	-	9,116
Sale of supplies	5,763	-	-	-	5,763
	<u>670,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>670,726</u>
Miscellaneous -					
Sales tax collected	46,433	-	-	-	46,433
Refunds and reimbursements	9,192	-	-	-	9,192
Customer deposits	-	14,200	-	-	14,200
	<u>55,625</u>	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>69,825</u>
Total operating receipts	<u>726,351</u>	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>740,551</u>
<b>OPERATING DISBURSEMENTS:</b>					
Business type activities -					
Water -					
Distribution expenses -					
Labor	82,924	-	-	-	82,924
Truck expense	821	-	-	-	821
Gasoline and oil	2,908	-	-	-	2,908
Supplies	5,257	-	-	-	5,257
Water tests	1,150	-	-	-	1,150
Electric	1,217	-	-	-	1,217
Shop fuel	1,924	-	-	-	1,924
Shop telephone	635	-	-	-	635
Purchased services	8,160	-	-	-	8,160
Clothes	2,138	-	-	-	2,138
	<u>107,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,134</u>
Distribution outlay -					
Supplies	957	-	-	23,060	24,017
Hydrant repairs or supplies	128	-	-	-	128
Equipment	2,976	-	-	-	2,976
Purchased services	425	-	-	-	425
Capital outlay	-	-	-	693,980	693,980
	<u>4,486</u>	<u>-</u>	<u>-</u>	<u>717,040</u>	<u>721,526</u>

## ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS NET ASSETS  
ENTERPRISE FUNDS

Year ended June 30, 2006

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING DISBURSEMENTS (continued) -					
Business type activities (continued) -					
Water (continued) -					
Administration and other expenses -					
Salaries	\$ 66,006	\$ -	\$ -	\$ -	\$ 66,006
Customer service wage	16,066	-	-	-	16,066
Postage	6,181	-	-	-	6,181
Office supplies	6,683	-	-	-	6,683
Office rent	1,800	-	-	-	1,800
Maintenance contracts	4,573	-	-	-	4,573
Telephone	3,557	-	-	-	3,557
Publishing	1,352	-	-	-	1,352
Audit and filing fee	1,540	-	-	-	1,540
Customer deposits	-	12,622	-	-	12,622
Dues	1,138	-	-	-	1,138
Insurance	13,286	-	-	-	13,286
Equipment	1,156	-	-	-	1,156
Legal	4,064	-	-	-	4,064
Employee insurance	59,848	-	-	-	59,848
Sales tax	46,541	-	-	-	46,541
Payroll taxes	23,382	-	-	-	23,382
Employee medical reimbursements	690	-	-	-	690
Purchased water	201,933	-	-	-	201,933
	459,796	12,622	-	-	472,418
Total operating disbursements	571,416	12,622	-	717,040	1,301,078
Excess (deficiency) of operating receipts over (under) operating disbursements	154,935	1,578	-	(717,040)	(560,527)

## ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS NET ASSETS  
ENTERPRISE FUNDS

Year ended June 30, 2006

	General	Customer Deposit	Debt Service	Improvement	Total
NON-OPERATING RECEIPTS (DISBURSEMENTS):					
Interest on investments	\$ 4,482	\$ -	\$ 1,884	\$ -	\$ 6,366
Miscellaneous -					
Sewer rental collections	319,106	-	-	-	319,106
Landfill charge collections	15,776	-	-	-	15,776
Sewer rental disbursed to City	(318,169)	-	-	-	(318,169)
Landfill charge disbursed to City	(15,824)	-	-	-	(15,824)
Revenue bond proceeds	-	-	-	682,618	682,618
Program income	-	-	-	9,333	9,333
Debt service -					
Principal redemption	-	-	(100,000)	-	(100,000)
Interest paid	-	-	(15,504)	-	(15,504)
Trustee fees	-	-	(1,327)	-	(1,327)
Total non-operating receipts (disbursements)	5,371	-	(114,947)	691,951	582,375
Excess (deficiency) of receipts over (under) disbursements	160,306	1,578	(114,947)	(25,089)	21,848
Operating transfers in (out)	(213,260)	-	171,260	42,000	-
Net change in cash basis net assets	(52,954)	1,578	56,313	16,911	21,848
Cash basis net assets, beginning of year	81,420	72,697	116,398	16,768	287,283
Cash basis net assets, end of year	\$ 28,466	\$ 74,275	\$ 172,711	\$ 33,679	\$ 309,131

See accompanying independent auditor's report.

## ALBIA MUNICIPAL WATERWORKS

Schedule 2

## SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	02-13-03	1.90%-2.95%	\$ 100,000
Water Revenue Bonds	09-01-04	2.85%-3.35%	120,000
Water Revenue Bonds	04-21-05	2.75%-3.25%	215,000
Water Revenue Bonds	11-23-05	3.00%	1,250,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
02-13-03	\$ 80,000	\$ -	\$ 80,000	\$ -	\$ 1,238	\$ -
09-01-04	120,000	-	15,000	105,000	3,571	-
04-21-05	215,000	-	-	215,000	6,373	-
11-23-05	-	695,118	5,000	690,118	4,322	-
Total	<u>\$ 415,000</u>	<u>\$ 695,118</u>	<u>\$ 100,000</u>	<u>\$1,010,118</u>	<u>\$ 15,504</u>	<u>\$ -</u>

See accompanying independent auditor's report.



## ALBIA MUNICIPAL WATERWORKS

Schedule 3

## BOND MATURITIES

June 30, 2006

Year ending June 30,	Water Revenue Bonds			
	Issued September 1, 2004		Issued April 21, 2005	
	Interest Rates	Amount	Interest Rates	Amount
2007	2.95%	\$ 20,000	2.75%	\$ 65,000
2008	3.15%	40,000	2.75%	65,000
2009	3.35%	45,000		-
2010		-	3.00%	55,000
2011		-	3.25%	30,000
		<u>\$ 105,000</u>		<u>\$ 215,000</u>

Year ending June 30,	Water Revenue Bonds		
	Issued November 23, 2005		
	Interest Rates	Amount	Total
2007	3.00%	\$ 5,000	\$ 90,000
2008	3.00%	5,000	110,000
2009	3.00%	5,000	50,000
2010	3.00%	61,000	116,000
2011	3.00%	63,000	93,000
2012	3.00%	65,000	65,000
2013	3.00%	67,000	67,000
2014	3.00%	69,000	69,000
2015	3.00%	71,000	71,000
2016	3.00%	73,000	73,000
2017	3.00%	75,000	75,000
2018	3.00%	77,000	77,000
2019	3.00%	54,118	54,118
		<u>\$ 690,118</u>	<u>\$1,010,118</u>

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 4

WATER STATISTICS

June 30, 2006

	<u>2006</u>
Meters in service	1,702
Gallons placed in service	129,251,000
Amount metered for sale	89,465,933
Flushings, hydrants, fires, leaks and city use (estimated)	39,785,067

See accompanying independent auditor's report.

## ALBIA MUNICIPAL WATERWORKS

Schedule 5

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Program Expenditures
Indirect -			
U.S. Department of Housing and Urban Development -			
Iowa Department of Economic Development -			
Community Development Block Grants/State's			
Program - Passed through the City of Albia	14.228	N/A	418,402 *
Environmental Protection Agency:			
Iowa Department of Natural Resources -			
Capitalization Grants for Drinking Water			
State Revolving Funds	66.468	FS-68-04-DWSRF-012	695,118
		Total	\$ 1,113,520

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Albia Municipal Waterworks and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

\* - Receipts and disbursements related to this program are accounted for in the audited financial statements of the City of Albia.

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the  
Albia Municipal Waterworks:

We have audited the financial statement of the Albia Municipal Waterworks, Albia, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated July 6, 2006. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Albia Municipal Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Albia Municipal Waterworks' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we believe it is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Albia Municipal Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Albia Municipal Waterworks and other parties to whom the Albia Municipal Waterworks may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Albia Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP  
Certified Public Accountants

July 6, 2006

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of the  
Albia Municipal Waterworks:

Compliance

We have audited the compliance of the Albia Municipal Waterworks with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. Albia Municipal Waterworks major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Albia Municipal Waterworks' management. Our responsibility is to express an opinion on Albia Municipal Waterworks' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about Albia Municipal Waterworks' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis of our opinion. Our audit does not provide a legal determination of Albia Municipal Waterworks' compliance with those requirements.

In our opinion, Albia Municipal Waterworks' complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Albia Municipal Waterworks is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Albia Municipal Waterworks internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Albia Municipal Waterworks' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described as items III-A-06 and III-B-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Albia Municipal Waterworks and other parties to whom the Albia Municipal Waterworks may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than there specified parties.

Peak & Gerdes, LLP  
Certified Public Accountants

July 6, 2006

ALBIA MUNICIPAL WATERWORKS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statement which was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statement, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statement.
- (d) Reportable conditions in internal control over the major program were disclosed by the audit of the financial statement, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Albia Municipal Waterworks did not qualify as a low-risk auditee.



ALBIA MUNICIPAL WATERWORKS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NONCOMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS**

II-A-06 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. At times, one person has control over one or more of the following areas.

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Receipts – billings, collecting, depositing, journalizing and posting.
- (3) Disbursements – purchasing, check writing, recording and reconciling.
- (4) Payroll – preparing and distributing.
- (5) Financial reporting – preparing, posting and reconciling.
- (6) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Waterworks should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and utility officials.

Response – We will continue to evaluate the internal controls and segregation of duties with limited staff.

Conclusion – Response accepted.

ALBIA MUNICIPAL WATERWORKS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 3006

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCE OF NONCOMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

**CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds**  
**Pass-through Agency Number: FS-68-04-DWSRF-012**  
**Federal Award Year: 2005**  
**Environmental Protection Agency**  
**Passed through the Iowa Department of Natural Resources**

III-A-06 Segregation of Duties over Federal Receipts – The Waterworks did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See II-A-06.

III-B-06 Cash Management – Monies received from the Drinking Water State Revolving Funds Program represent state and federal funds. Federal regulations require that procedures be in place to ensure minimal time elapses between the date of receipt of the federal funds and the related disbursement of those funds. Instances were noted where more than ten working days elapsed between the date of receipt of those funds and the related bank disbursement of those funds to the Waterworks vendors.

Recommendation – The Waterworks implement procedures to ensure federal funds received are spent in a timely manner.

Response – We will implement this recommendation.

Conclusion – Response accepted.

ALBIA MUNICIPAL WATERWORKS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

**Part IV: Other Findings Related to Statutory Reporting**

- IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-06 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- IV-D-06 Business Transactions – Business transactions between the Waterworks and the Waterworks and Waterworks officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jack Scieszinski, Water Board Trustee, Owner of Albia Motor Company	Repair of vehicle	\$246

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Water Board Trustee do not appear to represent conflicts of interest since total transactions with the individual was less than \$1,500 during the fiscal year.

- IV-E-06 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- IV-G-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.
- IV-H-06 Revenue Bonds - The Waterworks has complied with the provisions of the revenue bond resolutions.
- IV-I-06 Interest – In fiscal year 2006, the Waterworks had at least a \$139,000 balance in a savings account at the bank. In June, 2006, the savings account was paying interest at a rate of .75%. Several thousand dollars of additional bank interest could be earned if Waterworks funds were invested in higher yielding investments. For example, at June 30, 2006, interest rates on liquid funds invested in the Iowa Public Agency Investment Trust were over 4.5%.

Recommendation – The Waterworks be more aggressive in investing excess funds in higher yielding investments.

Response – We will review this area.

Conclusion – Response accepted.